

NATIONWIDE ARENA PROPOSAL

Finance Subcommittee Summary Report

September 14, 2011

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- Beginning at the beginning: The impetus for this effort was a concern that the future vitality and productivity of the Arena District as a regional economic development engine was in peril.
- Out of that concern grew a Working Committee of City and County officials:

Columbus Mayor Michael B. Coleman

Columbus City Council President Andrew J. Ginther

Columbus City Auditor Hugh J. Dorrian

Mayor's Chief of Staff Michael D. Reese

Franklin County Commissioner John O'Grady

Franklin County Administrator Don L. Brown

Franklin County Convention Facilities Authority, Executive Director
William C. Jennison

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- In December, 2009, John Rosenberger was engaged as special counsel by the City and Franklin County Convention Facilities Authority (CFA).
- In due course, the Working Committee designated a Finance Subcommittee comprised of:

Hugh J. Dorrian, Columbus City Auditor

William C. Jennison, CFA Executive Director

John C. Rosenberger, Special Counsel to the City and CFA

- The Finance Subcommittee's charge was to take up the dialogue with the owner and anchor tenant of Nationwide Arena and to explore for a solution that would assure the future vitality and productivity of the Arena District as regional economic development engine.

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- TODAY, THE SUBCOMMITTEE ANNOUNCES A PROPOSED TRANSACTION THAT IT RECOMMENDS FOR FORMAL CONSIDERATION BY COLUMBUS CITY COUNCIL, THE FRANKLIN COUNTY BOARD OF COMMISSIONERS AND CFA BOARD OF DIRECTORS.
- The Subcommittee has given no assurances to the owner or anchor tenant of Nationwide Arena that the proposed transaction will be approved by the City, County or CFA

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- The Subcommittee believes that the transaction structure is sound, that the imbedded business decisions are prudent and that the financial projections are appropriately conservative.
- The Subcommittee was guided in its work by Transaction Principles established by the Working Committee.
- The Subcommittee believes that the proposed transaction is consistent with the Transaction Principles, which appear as an Appendix to this Report.

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FIRST, SOME DEFINITIONS.

“CAM” is the new, non profit entity to be formed by NW, CBJ, OSU and CFA to manage the CFA’s Arena (NW Arena) and OSU’s Value City Arena (VC Arena).

“CapEx” are the expenditures for capital items at NW Arena.

“OpEx” are the expenditures for operating shortfalls at NW Arena after application of all revenues.

“NW” is sometimes Nationwide Mutual, Nationwide Arena LLC, Nationwide Realty Investors or other affiliated entities.

“CBJ” is Columbus Blue Jackets or COLHOC.

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THE PROPOSED TRANSACTION, QUICKLY.

1. CFA purchases NW Arena for \$42.5 Million.
2. CFA borrows \$43.3 Million from NW to fund part of the purchase, start up OpEx and start-up CapEx.
3. CFA borrows \$10 Million from the Ohio Department of Development to fund the balance of the purchase price.
4. CFA engages CAM to manage NW Arena.
5. CFA and CBJ enter into a Use Agreement through 2039.
6. City, County and CFA enter into a Financial Agreement providing for payment to the CFA of a percentage of City and County Casino Tax Revenues.
7. NW invests \$52 Million in CBJ and becomes a part-owner.

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1. CFA PURCHASES NW ARENA FOR \$42.5 MILLION.

- CFA purchase and responsibility for OpEx and CapEx effective as of 1/1/12.
- Projected OpEx for 2012 is \$3.8 Million.
- Projected CapEx for 2012 is \$1 Million.
- Initial CapEx reserve to “sync” resources with needs is \$6 Million.
- CFA requires \$53.3 Million for closing and first-year start-up.

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2. CFA BORROWS \$43.3 MILLION FROM NW.

- Loan proceeds are used for NW Arena purchase, start up OpEx and start-up CapEx.
- Interest rate is 4.875%.
- Payment is solely from a percentage of the City and County Casino Tax Revenues paid to CFA.
- Payments are to begin in 2013 and are projected to end in 2039.
- If Casino Tax Revenues are lower than projected, then CFA applies first to OpEx, CapEx and State loan payments and then to repayment of NW loan and a later payoff results. NW bears risk of slow payment.
- If Casino Tax Revenues are greater than projected, then early payoff of NW loan results.

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3. CFA BORROWS \$10 MILLION FROM OHIO DEPT. OF DEV.

- Loan proceeds are used for NW Arena purchase.
- Interest rate is 1.00%. Term is 10 years.
- Payment is solely from the City and County Casino Tax Revenues paid to CFA.
- A \$5 Million portion has interest only payments in years 1-5 and then level payments of principal and interest in years 6-10 with full payment at the end of year 10.
- A second \$5 Million portion has interest only payments until maturity at the end of year 10 when the full principal is due. \$500,000 of the principal will be forgiven for each year in which the CBJ meet certain roster and payroll requirements.

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4. CFA ENGAGES CAM TO MANAGE NW ARENA.

- Engagement is for for terms totaling 15 years.
- CFA agrees to pay CAM the projected OpEx and CapEx.
- NW, CBJ and OSU equally responsible for OpEx and CapEx overruns, with limit of \$21 Million.
- If and when CAM management ends, CFA can require NW and CBJ to continue as successor manager.
- If NW and CBJ become successor manager, then OpEx and CapEx overruns to be divided equally among NW, CBJ and CFA, with no limit.

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5. CFA and CJB ENTER INTO A USE AGREEMENT.

- CBJ agree to use NW Arena as home ice through 2039. This is a 13 year extension from the current 2026.
- CBJ receives the rent and expense-free use of the Arena that is typical for NHL teams at similar venues under similar circumstances. Essentially reduces CBJ cost of occupancy by \$9.5 Million per year.
- No payment of any kind to CBJ for past losses or for future operations.
- CBJ agree to maintain corporate, business and sports operations in the City of Columbus for term of Use Agreement.

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6. CITY, COUNTY & CFA ENTER INTO A FINANCIAL AGREEMENT.

- City and County agree to pay to CFA a percentage of the City and County Casino Tax Revenues.
- Agreed percentages begin at 25% in 2013 and after three years, increase annually in 1% increments to a maximum of 32% in 2022.
- Payment obligation begins in 2013 and is projected to end in 2039.
- Casino Tax Revenues greater or less than projected can result in adjustments to duration and, after payment of NW and State loans, to a reduction in the agreed percentages.
- Payment obligation is solely from City and County Casino Tax Revenues. This is a “revenue” obligation and not a “general” obligation.

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CASINO TAX REVENUES.

- Our proforma is based on a projection of Casino Tax Revenues for the first full year of operation of all four Ohio casinos that was prepared by the Ohio Department of Taxation and Office of Management and Budget. The projection has alternative assumptions regarding video lottery terminals (VLTs) at Ohio race tracks.
- Our proforma is based on the more conservative assumption that there will be VLTs at race tracks.
- We have assumed an annual 2% growth in Casino Tax Revenues. By contrast, we have assumed an annual 3.5% growth in expenses.
- The University of Cincinnati also published a projection of Casino Tax Revenues for the first five years of casino operation. Its projection for the first full year is 5.9% higher than the State's projection. Its projection for the fifth year is 17.5% higher than the State's first year projection increased by our annual 2% growth assumption. Our proforma uses the more conservative projection.

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A SNAPSHOT OF THE NUMBERS IN 2014

100% Collection -- 25% Share

| SOURCES | Total | 75% Other Uses | 25% Arena Trans |
|-----------------------------------|-------------------|-------------------|--------------------|
| City Casino Tax 60.78% Split | \$18,875,960 | \$14,156,970 | \$4,718,990 |
| County Casino Tax 39.22% Split | <u>12,180,244</u> | <u>9,135,183</u> | <u>3,045,061</u> |
| Totals | 31,056,204 | 23,292,153 | 7,764,051 |

USES

| | |
|--------------------|------------------|
| Arena OpEx/CapEx | 5,353,761 |
| State Loan Payment | 90,000 |
| NW Loan Payment | <u>2,320,290</u> |
| Totals | 7,764,051 |

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7. NW INVESTS \$52 MILLION IN CBJ AND BECOMES PART-OWNER.

- NW purchases a 30% interest in CBJ.
- McConnell Interests continue as majority owner.
- NW bears its ownership's portion of any future CBJ operating losses.
- NW invests \$28.5 Million and purchases arena naming rights and sponsorship from CBJ for 10 years.

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WHAT KEEPS CBJ AS THE NW ARENA ANCHOR TENANT?

- Use Agreement extends NW Arena as home ice by 13 years to 2039.
- Use Agreement provides a claim for liquidated damages that starts at \$36 Million and reduces over time.
- Reduced arena occupancy costs of \$9.5 Million per year make CBJ more competitive financially with other teams and, in turn, more competitive on the ice.
- Addition of another owner creates greater capacity to bear any future operating costs.
- Addition of another local owner makes CBJ even more the “home-town” team.

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TELL US ABOUT REAL ESTATE TAXES?

- NW Arena was developed in a Community Reinvestment Area and is generally exempt from real estate taxes until 2015. The purchase by CFA will generally permit the exemption to continue.
- NW will honor the agreement with Columbus Public Schools calling for a guaranteed payment to CPS of approximately \$1 Million per year, generally through 2014 and into 2015.
- Note that a few years ago, the area that is now the Arena District produced only nominal real estate taxes. Development of NW Arena has resulted in the development of many other properties producing substantial real estate taxes for CPS. And additional development already announced promises to increase real estate taxes to CPS even more.

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WHAT IS THE NW “CONTRIBUTION” TO THE TRANSACTION?

- Sale of the arena for \$42.5 Million, a price significantly below the original \$165 million cost of construction.
- \$52 Million investment to purchase a 30% interest in CBJ.
- \$28.5 Million investment to purchase from CBJ the arena naming rights and sponsorship for 10 years.
- NW bears its ownership’s portion of any CBJ operating losses.
- \$43.3 Million loan to CFA with risk of slow payment.
- NW bears one-third of OpEx and CapEx overruns.

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Appendix – Transaction Principles

*Arena Transaction not to use existing County or City General Fund revenues or other existing revenues.

Transaction is funded by Casino Tax revenues, a new source of funds to be distributed by the State to County and City beginning in 2012.

*County and City funding obligation to be conditioned upon distribution of Casino Tax revenues by State to County and City.

Source of all County and City funding for transaction is distributions of Casino Tax revenues with no obligation to fund from any other source. Distributions that are less or greater than projected will lengthen or shorten the payment period, which is projected to begin in 2013 and end in 2039.

*Arena transaction to be prospective only, with no payment to NW or CBJ for historical financial losses.

Transaction contains no provision for payment of historical financial losses. CFA becomes owner of Arena as of January 1, 2012 and is responsible for future operating results after that date.

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Appendix – Transaction Principles, Continued

*No public funding of CBJ operations other than use and occupancy arrangements typical of similar anchor tenants.

All County and City funding is to CFA for acquisition and operation of Arena as an important addition to the CFA facilities.

*Substantial private sector contribution to enable Arena Transaction.

Sale of the arena by NW for \$42.5 Million, a price significantly below the original \$165 million cost of construction. \$52 Million investment by NW to purchase a 30% interest in CBJ. \$28.5 Million investment by NW in naming rights and sponsorships. NW bears its ownership's portion of any CBJ operating losses. \$43.3 Million loan by NW to CFA with risk of slow payment. NW bears one-third of OpEx and CapEx overruns.

*Meaningful financial participation by State of Ohio in view of substantial State tax revenues generated in Arena District and of past practice of State participation in such projects.

\$10 Million Ohio Department of Development loan.

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Appendix – Transaction Principles, Continued

*Public Sector contribution is based on Economic Development/Productivity/Vitality of Arena District—nearly 10,000 Jobs – according to John Glenn Institute report and NW data.

*Appropriate agreements and assurances that Arena will be home ice of Blue Jackets through 2039 transaction term.

Agreement with CBJ to require use of Arena as CBJ home ice through 2039. Letter of Assurances from CBJ Majority Owner.

*Structure for efficiencies between CFA and OSU Arenas.

CAM, a new non-profit entity to be organized by NW, CBJ, OSU and CFA for purposes of managing both Arenas, achieving cost savings through joint management and realizing revenue increases through cooperative marketing and scheduling. “Test drive” under interim CBJ and OSU agreement in 2011 demonstrates cost savings and revenue increases are reasonably expected.

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Appendix – Transaction Principles, Continued

*Tax Agreement between NW and Columbus Public Schools to be honored.

NW provides written assurances that the agreement will be honored.